



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

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September 17, 2004

**Medicare Overpays Private Plans:
Paying the Same Rate as Traditional Medicare Lowers
Spending by \$50 Billion**

Dear Democratic Colleague:

I commend your attention to the attached article in *The New York Times*. The article discusses Medicare's current overpayments to private plans, which average 107 percent of payments in the traditional fee-for-service program and reach as much as 123 percent in some counties.

According to HHS, if Medicare stopped its current practice of overpaying private plans, and instead paid them at 100 percent of the payments in traditional fee-for-service, the Medicare program would spend \$50 billion less over ten years. These savings would accrue to both the federal government and to beneficiaries in the form of lower premiums.

With the federal deficit reaching \$422 billion in 2004, and seniors facing a 17 percent premium increase next year, why should the government overpay private plans by tens of billions of dollars?

Please feel free to contact me or my staff if you have questions or answers.

Sincerely,

/s

John M. Spratt, Jr.

Ranking Democratic Member

Private Plans Costing More for Medicare

By ROBERT PEAR

Published: September 17, 2004

WASHINGTON, Sept. 16 - Members of Congress expressed concern on Thursday about new data indicating that Medicare pays private health plans more than it would cost to care for the same patients in the traditional Medicare program.

Lawmakers of both parties raised questions about the payments, which were increased under the new Medicare law to entice more private plans to participate in Medicare.

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About 4.7 million of the 41 million Medicare beneficiaries, or 11.5 percent, are in health maintenance organizations and other private plans, now known as Medicare Advantage plans.

"The majority of seniors in traditional fee-for-service Medicare should not subsidize the minority of seniors in private plans," said Senator Olympia J. Snowe, Republican of Maine.

Senator Jeff Bingaman, Democrat of New Mexico, said that "large overpayments to H.M.O.'s were built into the bill" that Congress passed last year, and he asked why people in traditional Medicare should bear the cost of such "subsidies."

Congress once assumed that private health plans could get by on payments equal to 95 percent of the cost of treating patients in traditional Medicare, but experience showed that was not enough to keep plans in the program.

The Medicare Payment Advisory Commission, an independent federal panel, says in a report to Congress that Medicare is paying private plans an average of 107 percent of what it would cost to cover their patients under the traditional fee-for-service program. Payments were as high as 116 percent of the traditional Medicare cost in some cities and 123 percent in rural counties.

The office of the chief Medicare actuary told Congress that Medicare would spend \$50 billion less in the next 10 years if it paid private plans only 100 percent of what traditional Medicare pays. Copies of the estimates were obtained by The New York Times.

Peter L. Ashkenaz, a spokesman for the agency, said the estimates were prepared in response to requests from Congress.

Dr. Mark B. McClellan, administrator of the federal Centers for Medicare and Medicaid Services, said that in general, the private plans offered "tremendous savings" to the elderly and more benefits than traditional Medicare.

The estimates do not include the cost of \$10 billion in special bonus payments that the federal government can make to private plans as an incentive for them to enter or stay in the Medicare market from 2007 to 2013.

Senator Bob Graham, Democrat of Florida, said, "The federal government is dramatically overpaying H.M.O.'s," and he asked why.

Several members of Congress have vowed to pursue legislation to reduce what they describe as overpayments.

Former Senator Dave Durenberger, Republican of Minnesota, a member of the Medicare commission and a longtime supporter of managed care, said in an interview, "There appears to be no good reason why private plans should be given more money per capita than is given through the traditional fee-for-service system."

Karen M. Ignagni, president of America's Health Insurance Plans, a trade group for insurers, rejected the contention that private plans were overpaid. They need the additional money, she said, to pay doctors and hospitals in rural areas, where health care providers are sometimes reluctant to join the networks established by private plans.

In a telephone interview, Dr. McClellan defended the payments to private plans. People in those plans receive extra benefits and have lower out-of-pocket costs than those in traditional Medicare, he said, and the private plans often do a better job of holding down costs.

Beneficiaries in traditional Medicare, with no supplemental insurance, had out-of-pocket costs averaging \$2,631 in 2003, while the average for those in private plans was \$1,964, Dr. McClellan said.

Numerous federal studies have found that Medicare beneficiaries in private plans are, on average, somewhat healthier than those in traditional Medicare, so, in theory, it should cost less to care for them.

The Medicare commission said that the Medicare program should receive the benefit of those potential savings, but in 2004, it said, the money was redistributed among private plans, thus avoiding any reduction in "aggregate payments to plans."